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Pam O. Inmann
Executive Director

Headquarters:
1600 Broadway
Suite 1700
Denver, CO 80202

303-623-9378
Fax 303-534-7309

Washington, D.C. Office:
400 N. Capitol Street, N.W.
Suite 388
Washington, D.C. 20001

202-624-5402
Fax 202-624-7707

www.westgov.org

TESTIMONY OF
TONY WILLARDSON, DEPUTY DIRECTOR
WESTERN STATES WATER COUNCIL
ON BEHALF OF THE WESTERN GOVERNORS' ASSOCIATION
AND THE WESTERN STATES WATER COUNCIL
BEFORE THE
SUBCOMMITTEE ON WATER AND POWER
OF THE
ENERGY AND NATURAL RESOURCES COMMITTEE
UNITED STATES SENATE

APRIL 17, 2008

Dear Mr. Chairman and Members of the Subcommittee:

My name is Tony Willardson. I am Deputy Director of the Western States Water Council, and a member of the Western States Water Council, an organization of eighteen western states. Our members are appointed by their respective governors, and include senior state water managers and administrators. We are also closely associated with the Western Governors' Association (WGA), and I am testifying on their behalf. Water resources infrastructure investments and financing those investments are an important topic for the Governors and the Council. In April 2005, the Council addressed the full Committee as part of a Water Conference on various related topics, including the future role of the Bureau of Reclamation.

Our June 2006 report, Water Needs and Strategies for a Sustainable Future, highlighted support for two infrastructure related items within the jurisdiction of this Committee: (1) the Rural Water Supply Act since enacted into law; and (2) appropriations from annual receipts "...accruing to the Reclamation Fund for authorized Bureau of Reclamation projects and purposes, to help meet western water supply needs, especially for rural communities, to maintain and replace past projects, and to build new capacity necessary to meet demands related to growth and environmental protection." We look forward to working with Reclamation under the Rural Water Supply Act to assess related infrastructure needs. I will say more about the Reclamation Fund later.

The Water Report also directed the Council to hold a series of symposia designed to "(a) bring stakeholders together to try and find ways to meet our growing western water, wastewater, watershed protection and restoration, and public safety-related infrastructure funding needs; (b) find ways to quantify, evaluate and prioritize funding those needs; and (c) highlight the benefits of integrated watershed, riverbasin, regional and interstate planning and management."

Last month, the WGA and WSWC joined the Interstate Council on Water Policy and the Association of State and Interstate Water Pollution Control Administrators to cosponsor a "Water Infrastructure Workshop." To the extent the findings and recommendations from that discussion were consistent with our past positions and testimony, they have been incorporated

into today's testimony. One recommendation which we whole-heartedly endorse is the need for the President and the Congress to provide adequate resources for the collection of basic water data to provide the science necessary to evaluate present and future water infrastructure needs. Last December, the Council testified in support of the SECURE Water Act before the full Committee. Other workshop suggestions will be considered, but have yet to be vetted by the WSWC and approved by the Governors.

Various estimates of our Nation's total infrastructure needs have been made. The American Society of Civil Engineers (ASCE) testified before the Senate Banking Committee last month that "aging and overburdened infrastructure threatens the economy and quality of life in every state, city, and town in the nation." ASCE's 2005 report card for America's Infrastructure presented an overall grade of "D" and ASCE estimates it would take "an investment of \$1.6 trillion by 2010 to bring the nation's existing infrastructure into good working order."

The Bureau of Reclamation operates hundreds of dams and reservoirs in the West supplying water and power to millions of people, irrigating millions of acres for food and fiber, providing flood control and recreation, and maintaining instream flows for fish and wildlife habitat, including anadromous and threatened and endangered aquatic species. The value of federal Reclamation projects can not be overstated, particularly in assisting western communities to endure extended drought that continues to afflict parts of the West. Two of Reclamation's express "mission goals" are: (1) managing, developing and protecting water and related resources to meet the needs of current and future generations; and (2) operating and maintaining facilities safely, reliably, and efficiently to protect the public investment.

These investments are key to our Nation's continued economic prosperity and further environmental improvements. The West faces a continuing need for storage in Reclamation projects, and in the future more storage will need to be considered as part of an integrated water resources strategy that relies on a mix of water supplies. It is essential that we preserve and protect our existing water infrastructure, if we are to maintain past gains in environmental quality and our present and future quality of life. In general, we are not yet in a crisis, but face a chronic problem that will only get worse without aggressive, affirmative action. If we are to leave a firm

water infrastructure foundation for future generations, we will need to increase spending for project repairs, replacement and new construction. Their water future is in our hands. Our decisions, actions or inaction, will affect not only our quality of life, but theirs. Similarly, we enjoy the foresight of earlier generations.

Reclamation faces many serious challenges to balance and provide for a new mix of resource needs in the West due to population growth and changing values. While traditional agricultural demands continue to dominate water use in the West, environmental uses have become more important to the public, while municipal and industrial development is demanding more and more high quality water. Climate uncertainty increases the challenge. In the future, there will be even greater demands placed on the West's limited water resources and Reclamation's aging projects, many of which are well beyond their designed life. We must preserve our existing storage capacity, and consider additional water storage alternatives, again as part of an integrated water resources planning strategy.

In the West, we all have an important interest in federal Reclamation project rehabilitation, and the solutions to problems related to aging infrastructure will require the formation of true partnerships. In the foreseeable future, Reclamation faces the need to spend hundreds of millions of dollars for general operation and maintenance expenses, extraordinary maintenance, dam safety, project rehabilitation and betterment, and water delivery system improvements. The Council and the Governors recognize the need to work together as federal-state-local partners to address this challenge. Reclamation's mission goals cover a number of long-term goals that include ensuring effective operations of facilities; and operating, maintaining and rehabilitating facilities to ensure reliability and cost-effectiveness. The Bureau's strategy for accomplishing these goals lists several guiding principles that involve a continuing and close working relationship with traditional water users, while using partnerships to create sustainable solutions and leverage limited resources. Transparent decisionmaking is one important principle that can not be over emphasized. States and local districts want to be "partners" not just "paying customers." They need to be actively involved in the evaluation, design and selection of alternatives.

Moreover, project modifications, reoperations and reauthorization should be considered, as necessary and appropriate, to look at current water problems and opportunities to increase project water yields to make more water available for new and expanded uses and increase water use efficiency. Reclamation facilities also play a key role in storing, managing and delivering water under numerous interstate compacts and international treaties and tribal water right settlements. These facilities must be maintained and operated so as to insure that U.S. interests are protected, and U.S. obligations fulfilled.

The Administration and the Congress must make this a budget priority. How should Reclamation programs and projects be funded? Created by the Reclamation Act of 1902, the Reclamation Fund was envisioned as the means to finance western water and power projects with revenues from western resources. Its receipts are derived from water and power sales, project repayments, certain receipts from public land sales, leases and rentals in the 17 western states, as well as certain oil and mineral-related royalties. It is a special fund within the U.S. Treasury that is only available for expenditure pursuant to annual appropriation acts.

With growing receipts, in part due to high energy prices, and declining federal expenditures for Reclamation purposes, the unobligated balance gets larger and larger (and otherwise reduces the need for federal borrowing proportionally), with the money actually spent elsewhere for other purposes. Receipts in the past were insufficient for the construction of major federal projects such as Grand Coulee and Hoover Dams, which required the appropriation of general Treasury funds, but today it appears that the Reclamation Fund balance is more than sufficient to pay for Reclamation's water resources programs at current levels.

The Congress, concerned with budget scoring problems, rejected the Administration's FY 2006 request to allow Reclamation to spend certain revenues from water and power receipts in the Reclamation Fund for project operation and maintenance expenses without further appropriation. At present, Reclamation Fund receipts, including energy-related revenue from federal lands, exceed appropriations by roughly \$1 billion annually. The WGA and the Council strongly believe the Administration should request and the Congress should appropriate more of this money for Reclamation project operation, maintenance, rehabilitation and replacements -- as

well as to “...build new capacity necessary to meet demands related to growth and environmental protection,” in close consultation with western states. (Water Report 3B, p. 15)

The President’s FY 2009 budget request for Reclamation’s Water and Related Resources account totals just over \$779 million, compared to actual FY 2008 appropriations of over \$949 million -- continuing a general downward trend. Current program and financing figures and estimates of new budgetary authority (gross) for obligation for FY 2009 is \$1.053 billion, down from \$1.113 billion for FY 2008 and \$1.074 billion in FY 2007. Total gross outlays would be \$1.077 billion, compared to an estimated \$1.435 billion in FY 2008 and just over \$1 billion in FY 2007. Reclamation’s facility maintenance and rehabilitation figure for FY 2009 is \$183 million, compared to \$195 million for FY 2008, and \$201 million for FY 2007. Obviously, spending on Reclamation infrastructure is going in the wrong direction.

Meanwhile, the unobligated balance in the Reclamation Fund continues to grow. The actual balance at the end of FY 2007 was \$6.567 billion – and the estimated balance at the end of FY 2008 is \$7.612 billion – with an estimated balance at the end of FY 2009 of \$9.232 billion. (By way of comparison, the Administration estimated that the fund at the end of FY 2006 would be \$5.905 billion, but the actual balance was \$5.671 billion). The actual balance at the end of FY 2004 was \$3.877 billion. Between the end of FY 2004 and the end of FY 2009, the unobligated balance will have grown by \$5.36 billion, if current FY 2009 estimates are correct.

Next, federal loan guarantees authorized by Congress should allow the Bureau of Reclamation to provide the means for the repayment of state and local bonds for the rehabilitation and construction of projects. The WSWC has in the past also supported a similar insurance fund, as well as the use of tax-exempt bonds to finance water resources needs. Tax credit bonds are another potential tool. State and local agencies finance the majority of their own water needs, but federal assistance has and will continue to be important.

Interior’s Water 2025 Initiative is an example of Reclamation’s efforts to address water resources challenges in the West before conflicts reach a critical impasse. The success in leveraging federal, state and local resources through its Challenge Grants is an example of what

can be accomplished if we are willing to work together. It is apparent that matching non-federal support could easily be found for \$100 million in federal money, although this program alone is insufficient to provide meaningful support for water infrastructure needs in the western United States.

It is time to focus federal financial resources intended to aid in western water development to help Reclamation and state and local agencies meet the future challenges of continuing to supply adequate water of suitable quality in the face of growing municipal and industrial demands and federal requirements to protect public health and the environment. Federal infrastructure investments are justified in order to maintain our Nation's economic and environmental vitality, to assist state and local entities meet federally mandated standards, and to aid economically stressed communities.

Water has always been a valuable commodity in the West, and it is now increasingly so. We should all expect to pay more for water and water-related goods and services in the future as individuals and as governments in order to invest more in our water resources infrastructure. Regional projects offer potential savings due to economies of scale, but "exurbanization" including the development of whole subdivisions in rural areas with each homeowner relying on their own well and septic system are creating new stresses. Federal, state and local water and land management and planning agencies need to work together on a watershed and river basin scale to find solutions. More research is needed into water supply alternatives, asset management tools, risk assessment and acceptable risks, etc.

Current challenges may provide an opportunity to look beyond existing ownership and partnership arrangements, as well as authorized project purposes and benefits. Appropriate public-private partnerships should be considered where they have the potential to accelerate high priority projects, fast track financing or provide incentives to maximize performance. However, such contracts require clearly defined responsibilities and performance requirements.

In the future, as we address the growing water needs in the West for many purposes, different agencies and stakeholders may have to come together and pool their available financial

and other resources in new project specific partnerships, as well as nonstructural agreements, in order to overcome the challenges and obstacles we face in resolving our aging infrastructure problems and insuring the West and the Nation has an adequate water supply.

On behalf of the Western Governors' Association and Western States Water Council, our members and member states, we appreciate the opportunity to testify and I would be happy to answer any questions. Thank you.